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FM AMEMBASSY MEXICO

TO RUEHC/SECSTATE WASHDC PRIORITY 5271

INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY

RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

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TREASURY FOR IA (ALICE FAIBISHENKO)

DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND ALOCKWOOD

STATE PASS TO USTR (EISSENSTAT/MELLE)

STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)

NSC FOR DAN FISK

E.O. 12958: N/A

TAGS: [ECON](#) [ECPS](#) [EFIN](#) [ELAB](#) [MX](#) [PGOV](#) [PREL](#)

SUBJECT: MEXICO ECONOMIC NOTES, FEBRUARY 2 - FEBRUARY 9

Sensitive but unclassified, entire text.

Summary

1. (SBU) Although the new Mexican Undersecretary for Hydrocarbons told the Embassy he would continue working on the Mesoamerican Energy Initiative, he has not yet assigned staff to the task. Finance Secretariat Undersecretary Werner explained how Mexico could use its oil stabilization fund to temporarily stave off a financial shortfall stemming from a drop in oil prices. Bank of Mexico Governor Ortiz expects inflation to ease by the end of 2007. Secretary of Economy Sojo publicly noted that Mexico was losing ground to other countries in attracting foreign investment. The Chairman of Mexico's Competition Commission called for the opening of a third television network. The dispute between the Secretariat of Communications and the telecom regulator

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Cofetel is getting increasing attention from the press. The head of the teachers' union denied that the union was blocking needed educational reforms. Meanwhile, the federal government provided funds for the Puebla state government to avert a threatened teacher's strike. In one step to improve competitiveness, the NAFTA working group on rules of origin (U.S., Mexico, and Canada) finalized the third tranche of products on which rules will be liberalized. End summary.

Hydrocarbon U/S on Mesoamerica Initiative

2. (SBU) The new Mexican Undersecretary for Hydrocarbons, Mariano Budebo, confirmed to ECON and FCS that he is still responsible for the gas and refining aspects of the Mesoamerican Energy Initiative. Economic Minister Counselor stressed to Budebo that the PIEM project is of interest to the United States, and that the USG stands ready to consider

any assistance/coordination requests from Mexico -- especially on energy savings and renewables. Budebo suggested that the Embassy speak to Jordy Herrera, Undersecretary for Energy Planning regarding renewables and energy saving technologies. Budebo added that no meetings at the Secretariat or Head of State level of the PIEM are currently foreseen. One Secretariat of Energy (SENER) Director General told econoff after the meeting that Budebo had not assigned any staff to the project.

Hacienda: Mexico Can Weather Low Oil Prices

13. (SBU) During a conference call on February 1, Undersecretary of Finance Alejandro Werner estimated that real GDP growth in 2006 was 4.8 percent. Mexico registered a fiscal surplus of 0.23 percent of GDP in 2006. He reiterated that the government is able to deal with low oil prices in 2007. The government can tap up to half of the 34 billion pesos in the Oil Stabilization Fund, and there are 35 billion pesos available from one of the taxes in the new Pemex fiscal regime. He noted, however, that these mechanisms are only meant to be a cushion and cannot last forever. Werner added that if there is a large, sustained drop in oil prices, the government would have to cut spending if non-oil income failed to make up for the lost revenue.

BOM: Inflation to Drop Later in the Year

14. (SBU) Bank of Mexico's (BOM) Governor Guillermo Ortiz said that although inflation will likely remain high in the first part of 2007, he expects it to come down toward the end of the year. The BOM notes that consumer price inflation and core inflation should end the year between 3.5 percent and

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4.0 percent -- down from between 4.0 percent and 4.5 percent in the first half of the year. Ortiz said that the recent increase in inflation was caused by specific shocks to certain products and that so far there are no signs of contamination.

Sojo on Mexican Competitiveness

15. (SBU) Economy Secretary Eduardo Sojo told the press that Mexico as well-regarded by foreign investors, but more competitive countries such as Malaysia were seen as superior sites for foreign direct investment. He added that Mexico's proximity to the U.S. was no longer a significant advantage. Sojo is meeting with investors to learn their concerns about the Mexican economy.

Perez Motta on Third TV Network

16. (SBU) One common concern is the lack of competition throughout Mexico's economy. Eduardo Perez Motta, Chairman of Mexico's Federal Competition Commission discussed competition in television. Motta told the press that Mexico needs a third television network that would compete on an equal footing with the existing networks (Televisa and TV Azteca). He added that the now unused spectrum favors existing broadcasters, creating an artificial shortage. He also told a Senate committee it was necessary to review the radio and television law to create more competitive conditions.

Cofetel/SCT Rift Grows

17. (SBU) Over the past week, the rift Secretariat for Communications and Transport (SCT) and the independent telecommunications regulator Cofetel has become increasingly public. At a telecom conference last week, industry insiders referred to the "war" between the regulator and the

Secretariat as threatening prospects for progress in the

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telecommunications sector. Media reported that the SCT has attempted to interfere in issues that are exclusively under Cofetel's scope such as inter-connection rates and technological convergence. Eduardo Ruiz Vega, one of Cofetel's commissioners, accused SCT of violating the organization's autonomy. Ruiz acknowledged that the current relationship and communication between both agencies is weak due to the legal cases filed by the current SCT Under Secretary Rafael del Villar and by Gonazalo Martinez Pous,

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current Legal Director of the SCT. According to the commissioner, SCT is using the courts to make Cofetel more vulnerable. In 2006, then-president Fox appointed del Villar and Martinez Pous to become Cofetel commissioners, but Congress rejected them. Del Villar and Martinez Pous filed injunctions against the Senate's rejection, and the injunctions are still pending. Ruiz also complained that SCT has yet to approve Cofetel's internal regulations, which has left Cofetel unable to issue pending AM and FM concessions and permits.

Teachers' Union Denies that It Blocks Reforms

18. (SBU) Following a meeting with President Calderon, Teachers' Union (SNTE) President Ester Gordillo denied that the union rejected needed changes in the Mexican educational system. A 2006 Inter American Development Bank (IDB) study faulted Gordillo's union as the principal obstacle to improving Mexican education.

Government Avoids Teachers Strike in Puebla

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19. (SBU) On February 5, the state government of Puebla averted a threatened strike by reaching agreement with the local chapter of the National Teachers' Union (SNTE) on salary benefits. The chapter had insisted on receiving the traditional bonus paid every six years at the end of a gubernatorial or presidential administration. Technically this bonus is the responsibility of state governments, but actual funds often come from the federal government. When the Puebla state government said it lacked funds to pay the bonus, the 25,000 teachers in the local SNTE chapter threatened to strike. Puebla's state authorities turned to the federal Secretariats of Education and Government (Interior Ministry) for help. Ultimately, the Secretariat of Government promised to provide the money (2,500 pesos per teacher, roughly USD 230). No doubt the federal government's decision to pay was influenced by the fact that the on-going and occasionally violent, civil unrest in the state of Oaxaca began when the teachers there were denied their six-year bonus payment.

NAFTA Group Liberalizes Rules of Origin

110. (SBU) The Embassy attended the NAFTA Working Group on Rules of Origin meeting in San Francisco February 5-6. The United States, Mexico and Canada finalized the third tranche of products for which the rules of origin will be liberalized (previous liberalizations took place in 2004 and 2006), and discussed products that could be included in a fourth tranche. Mexico will need approval from its Senate for these changes, but expects they will pass easily. The group also worked on simplifying NAFTA rules of origin in light of the revised 2007 Harmonized System for goods nomenclature. Finally, the group discussed the merits of re-invigorating the NAFTA Customs sub-group.

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